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standard wages, were in practically all cases reduced to conform more nearly with general wage levels. Maximum rates were maintained. Individual re-rating with the new wage-rates for basis was carried out within six weeks,

and although all had the privilege of questioning their final rating, either directly or through the Works Committee, only 14 out of 2,500 raised any question in regard to their standing after the readjustment.

## Bases for Determining Wage-Rates: A Fair Day's Pay for a Fair Day's Work!

By R. M. HUDSON

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**I**N attaining the equity implied in the above title, there are two major points of view—that of the employer, who is to pay the wage, and that of the employe, who is to render the service. No wage agreement or adjustment was ever mutually satisfactory in which one of these viewpoints was underestimated, or lightly considered by the holder of the other. Industrial history is full of examples which prove the truth of this statement. Times change, but human nature is much the same today as it was when the wage system began. What every worker wants, regardless of his job, position, rank, or station, is an income that will satisfy his needs, his desires and his ambitions. Since it seems that no two of us have identically the same wants, tastes, desires, ambitions, or inclinations, is it any wonder, then, that we have made so little progress toward achieving a formula wherein wages and services are always balanced? This, however, should not deter us from striving to establish a method that will work with greater justice than any heretofore; rather, we should accept the evident lack of such a method as a challenge to do our utmost toward bringing about a more general understanding of what is a fair day's work in every industry or occupation, and what is a fair day's pay for that work.

### THE EMPLOYEE'S VIEWPOINT

Since the rendering of a service precedes the payment therefor, let us consider the employe's viewpoint first. Work, to him, is primarily the means to an end. It is the medium through which he reaches a definite objective. That objective is first expressed in a living for himself and others dependent on him; after that, in a competence which shall insure him and those dependent on him against poverty and hardship in old age. And while the average worker is thus concerned about the present, and the relatively remote future, he is also interested in getting a certain amount of enjoyment out of life as he goes along. It is these three major interests that have the greatest influence in forming the conception, in each worker's mind, of what is a fair wage for his work. The compensation he wants is not based on the laws of supply and demand, though the compensation he gets, is! Therefore, employes as a class will never be satisfied with any method of determining wages which fails to regard their services as something more than a commodity.

### THE PROBLEM CONFRONTING THE EMPLOYER

The employer, however, is not without his own desires, hopes and aspirations, and, no matter how fair-minded

he may be in his dealings with his employes or co-workers, he finds his ability to pay high wages often limited by the demand for his products or services. Since that demand is the expression of the price the employer can get for the products of his plant, it follows that the employer is not the final arbiter of the wages he can pay. It is the ultimate consumer that pays for all the activities involved in bringing to him the article he uses.

The employer is thus in the difficult position of conducting his business so that he can maintain the demand for his products, pay satisfactory wages, and still derive sufficient profits to compensate him for the trials and tribulations of that position.

Consequently, the narrow margin—which results from his effort to pay high wages to labor, give low enough prices to his customers to maintain demand, and also give a fair return on the investment or expenditure necessary to carry on the business—compels the employer to apply scientific principles of management in the conduct of that business. Otherwise, the entire proposition becomes a gamble and, rather than take any chance of loss to himself, the employer will often maintain his prices as high as possible and will pay no more in wages than he absolutely has to—in other words, the current market price—for his labor.

Unfortunately, the latter has been the more common method, and, in consequence, concerted action to raise wages or maintain them after they have been brought to a higher level, has been labor's chief recourse. The future would offer little hope of conditions' becoming any better, were it not for the fact that out of all the recent industrial strife and controversy, managers have come to realize that they must not only have a "much greater technical experience and ability

than was formerly needed," but they must also have sound views regarding the relation of their business to society, as well as a more highly developed sense of social responsibility than was heretofore regarded as necessary. That means the acceptance of the principle that industry exists for the benefit of humanity, and not solely for the enrichment of a few.

#### MUTUAL INTEREST IN BEST MODE OF OPERATION

Labor, likewise, in recognizing these truths, has the right to ask that the plants in which it spends so much of its time and effort, be well managed; that wastes be eliminated, and the business be conducted on a plane which shall insure to labor that peace of mind which comes only with the continuity and permanency of employment. Enlightened self-interest requires both employers and employes to seek and apply the "one best way" of operating the business from which both derive their wages. Coincidentally, the buying public, through the negative and highly effective process of *not* buying, is gradually asserting its right to obtain the goods it uses at the minimum price, and thus is demanding that scientific methods shall be employed in producing those goods.

No new discovery is needed to provide ways and means whereby labor can obtain what it wants, viz., high wages, or the public obtain its desires, low prices, and still give capital a fair profit. The application of the principles of scientific management, developed by the late Frederick W. Taylor, has proved in several industries in the past decade that these conditions can be met and adequately fulfilled. The increasing number of specific industries in which these principles have been tried and proven, is sufficient evidence of their practicability as bases for

sound management. Definite, precise and exact methods are utilized to achieve the results sought. Action is based on facts, or positive knowledge. Opinion and guesswork, are, coincidentally, relegated to the background. The use of facts as a basis for guidance means investigation, study and research. The truth must be known, and both sides of every question clearly visualized in order that error and injustice may be reduced to the minimum.

#### SCIENTIFIC MANAGEMENT PRINCIPLES AND WAGE ADJUSTMENT

In no phase of the work is that thoroughness more clearly emphasized than in the wage-adjusting process. Through the years in which the writer has been dealing with the problems of industrial relations, it has been his privilege to be very closely in contact with both employers and employes in industries operating under scientific management principles; consequently, the statements made herein are based on personal observation. In that experience, the most effective methods found for determining equitable wage-rates, have proved to be compromises in which the conditions sought by both employers and employes, as outlined in the earlier part of this paper, have been recognized.

For example, we have studied the existing conditions thoroughly, and charted the prevailing wage-rates of a specific period as the base of subsequent ratings. These periods have been chosen as those of low turnover, minimum industrial strife or disturbance—in other words, “periods when the working community was in good condition, and workers were able to obtain satisfactory wage-rates without difficulty.” The relative increase in cost of living from that period to the current period of wage adjustment was then determined by very comprehen-

sive surveys. The wage-rates of the base period were then increased by the percentage rise in living costs from then until now. The resultant rates were then carefully checked with the wage-rates current in the community for the various trades and occupations found in the particular industry for which the wage adjustment was being determined. Thus, the variation in money wages for those trades from the calculated wage-rate, indicated the several influences which had worked between the base period and the current period, to alter the original relative position of those trades.

In some cases it was found that the actual increase in wages was less than the resultant rates as above determined; whereas, in the same interim, wages for other trades had risen far beyond their original wage as increased by the rise in the cost of living. Strong organization and concerted action, especially among the more highly skilled trades, because of the greater demand for their services, enabled them to obtain the greater increases, but, in so doing, they “killed the goose that laid the golden egg,” for when these artificially high rates were passed on to the ultimate consumer the reaction was both swift and sudden.

#### ARTIFICIALLY DEVELOPED WAGE- RATES AND OTHER FALLACIES

The fallacy of artificially developed wage-rates has been well demonstrated during the past five years, for, while temporary advantages have been gained by labor when wages have gone up, and by employers as wages have come down, the final balance is governed by the price obtainable for the goods produced by their joint efforts. The complete removal of wage determination from the influence of the law of supply and demand is difficult to visualize, though it may be conceived

that the unanimous recognition by employers and employes of a uniform or highly standardized method of wage-setting might bring it about. Prices, however, would then, as now, be based on the costs of the goods produced, and since the costs include the labor charge, or wages paid in the production of the goods, we would soon be faced with the problem of a market for the goods at the price thus set. If there were little or no demand for them, further production would soon stop, and could be resumed only as the price became attractive enough to induce buying. Thus the relative skill, strength, accuracy, or other elements peculiar to the trade or occupation, would have value only in proportion to the market for them, as reflected in the market for the goods in the production of which those elements of human effort are required.

All occupations vary to a greater or lesser degree in their elementary requirements. These variations range from a maximum of physical ability and a minimum of mental effort, to a minimum of the former and a maximum of the latter. The assigning of weights or relative values to these elements throughout the entire list of occupations, even in one industry, would be an interesting analytical study, but of doubtful value for direct application in the wage-setting process. The relative hazard, or the periodicity of employment, would likewise have small influence in establishing a basis for a wage-rate, for all of these are incidental to the occupation, and the pursuit of any one occupation presupposes a demand for the service represented thereby. That service, however, is a component of a specific endeavor or effort which ends in the ultimate marketing of the product to a consumer.

The principle is no different whether

the example is that of a mason laying bricks, a machinist making parts of a machine, or a physician prescribing for a patient. In the last analysis, the economic law of supply and demand operates to fix the return to all previously concerned, according to the price received by the final vendor from the ultimate consumer. The distribution of that return to each participant, is governed by the extent to which each has contributed to the final thing sold, or the final service rendered. The law of supply and demand is impartial in its operations, and irresistible in its rulings. Employers are no better able to defeat it than are wage earners, though they may temporarily gain an advantage by their respective combinations or other attempts at monopoly control. Current conditions testify, however, to the appalling economic waste from such efforts.

#### INDIVIDUAL FACTORS IN AN EQUITABLE WAGE SYSTEM

An equitable wage system takes into account the contribution made by the individual worker toward the final object sold, regardless of what the worker's status or relative value may be when he is considered as a member of a certain group or class. Two men may be classed as machinists, yet one will be of greater value than the other to the industry that employs him. The individual differences that make that greater value are as follows:

- (1) The relative rate of productivity or output is highly essential. If both men carry the same base rate, the faster of the two will be more of an asset than the other. It is conceivable, however, that both may be so slow in their performance as to be liabilities, for the costs of the work they do would be sadly out of proportion to the price obtainable for their products. It

follows, then, that certain minimum standards of output must be established for which the base rate is fair compensation. That minimum output is easily deduced from a study of the probable maximum price obtainable, and the consequent maximum allowable cost for each component. Greater output than that standard can be rewarded by a direct return in the wage-rate of a share of the savings resulting from the lower costs effected by that higher productivity. The determination of the standards can be most scientifically accomplished through time studies, made under highly standardized conditions of operation.

(2) The tendency to speed up output, however, brings with it a greater risk of spoilage, and consequently the losses resulting must be shared by the worker responsible for them in a reduction in his individual rate proportional to those losses. It is thus possible for the worker to govern his rate of production so that he earns more than his class rate, and yet have little or no spoilage. He soon learns the relative value of speed and accuracy in their relation to his rate of earning.

(3) The worker who can do more than one particular thing, is entitled to recognition for his versatility; for obviously he is of more value to his employer in that he provides the latter with a more flexible organization than he otherwise would have, and, consequently, the annual labor turnover is lowered, and its expense lessened by reason of the worker's greater ability.

(4) Recognition of the years of connected service of an employe has its value in stabilizing the industry and further lessening the costs of turnover.

(5) Regular attendance likewise is of value, for the losses due to idle machinery or interrupted routine, are thus minimized.

(6) Good conduct and high coöpera-

tion from employes are of appreciable value to an employer, and though some may argue that "virtue is its own reward," and that "custom does not give medals for honesty," the influence of highly coöperative, self-governing employes is very helpful in obtaining a high efficiency of operations.

These individual factors will have varying values with respect to each other, and according to the extent to which they contribute to the success of different enterprises; but they should be recognized in every industry, for to the industry, these factors are the expression of the value of the individual and to the worker, they are direct and tangible means of achieving his desires.

The equating of these factors into a monetary expression is a research problem for the industry which considers them of value. Helpful suggestions as to method are found in the description given in "Taylor System in Franklin Management," by Col. George Babcock. The effect on costs under such a method of rating workers, is to lower them, for the support of the workers is obtained in reducing the wastes that always exist in any plant until the recognition of these factors as a basis of wage payment brings them to light. Conditions which interfere with production, breed spoilage, induce absence, or limit ability, are promptly shown up in the individual performance records. Intelligent managerial investigation and corrective action aid to remove these several obstacles, and the average productivity of the group rises steadily. Costs continue to lessen and the resultant savings permit the higher wages. Quality of output is improved, and as quantity increases, it becomes possible to lower selling prices and thus obtain a greater volume of business. This logically brings about a continuity

of operation that makes for further economies in various ways other than merely those due to a highly efficient and stabilized working force. The beneficial influences of such methods of operation extend beyond the employee, the employer and the consumer, to the community in which the industry operates, and thus the industry renders a genuine service to all concerned.

#### MAXIMUM COÖPERATION NECESSARY FOR PERFECT EQUITY

But these results cannot be achieved all at once. It takes time, effort, patience and everlasting courage, coupled with broad vision, to work consistently toward the end sought; but the end justifies the means. The period of constructive effort can be shortened only through maximum coöperation between employers and employees. Lack of faith in each other and selfish disregard of

either's point of view by the other, will delay the result indefinitely. There is nothing Utopian in the plan: it is intensely practical, even if it does take relatively more time. But wherever scientific management principles have been scientifically applied it has been demonstrated that "a fair day's pay for a fair day's work" is something more than a slogan. It is a living fact! Only through the prosperity of the industry that supports them both, can employer and employee hope to enjoy that individual prosperity each desires. This means that each gets out of the industry what each puts into it, and therefore, since the maximum of efficiency is gained only as output approaches input, the application of scientific management principles to each industry offers the best means for providing a fair day's wage for a fair day's work.

## The Bases Used by Department Stores in Establishing Wage-Rates

By PHILIP J. REILLY

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THE practice of large department stores at present is to use the cost of living as the principal base for establishing minimum starting rates for inexperienced adult workers. The margin in a starting rate above this minimum is influenced at any given time by the demand and supply of workers, and by the desire of a store to attract workers of a given type. Some years ago, the base used almost solely by the large stores for starting rates was the payment of merely what the market conditions required. The change in policy has been effected not only by the general use of the cost-of-living base by state minimum wage commissions in formulating wage stand-

ards for retail stores, but also by the recognition of managers that a store cannot continue to attract and retain the type of worker necessary to render the intelligent service that customers demand unless it pays a starting wage that represents at least the cost of living.

Some stores now pay a starting rate to inexperienced workers that represents a substantial advance over the established legal minimum wage. This is done on the theory that, with labor as with merchandise, one gets in results precisely what one pays for, provided the workers are selected with discrimination. Occasionally a large store in a given city can consistently follow this